

**FINANCIAL MANAGEMENT:
Review of Assertions Included in the
Interagency Crime and Drug Enforcement's
Fiscal Year 2001
Annual Report of Drug Control Funds**

OIG-02-045

February 11, 2002



Office of Inspector General

The Department of the Treasury

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Interagency Crime and Drug Enforcement's FY 2001 Annual Accounting of Drug Control Funds

Abbreviations

ICDE	Interagency Crime and Drug Enforcement
OIG	Office of Inspector General
ONDCP	Office of National Drug Control Policy
U.S.C.	United States Code

*The Department of the Treasury
Office of Inspector General*

Steven O. App
Acting Chief Financial Officer
Interagency Crime and Drug Enforcement

We have reviewed management's assertions in Section b of the accompanying Interagency Crime and Drug Enforcement's (ICDE) Fiscal Year (FY) 2001 Annual Accounting of Drug Control Funds (Submission).

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion.

The Submission, including the assertions made, was prepared pursuant to 21 U.S.C. §1704(d) and Office of National Drug Control Policy (ONDCP) Circular: *"Annual Accounting of Drug Control Funds"* (Circular), and is the responsibility of ICDE's management.

The ICDE's Table of FY 2001 Drug Control Obligations presented drug control obligations under two of the ONDCP's Strategy Goals. The allocation of the total obligations between the two goals was determined by the entities that received ICDE funds including the Departmental Offices, the Internal Revenue Service (IRS), the Bureau of Alcohol, Tobacco and Firearms and the United States Customs Service. The IRS allocated its total ICDE drug control obligations between Goal 2 (Increase the Safety of America's Citizens by Substantially Reducing Drug-Related Crime and Violence) and Goal 5 (Break Foreign and Domestic Drug Resources Supplies) by applying certain resource utilization percentages to its

total ICDE drug control obligations. However, the IRS could not provide support to the ICDE for the calculation of these percentages. This matter was first reported in our FY 2000 review report.

Based on our review, with the exception of the matter described in the preceding paragraph, nothing came to our attention that caused us to believe that management's assertions included in Section b of the accompanying Submission are not fairly stated, in all material respects, based on the requirements set forth in the Circular.

This report is intended solely for the information and use of the management of ICDE, the Department of the Treasury, the ONDCP, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

* * * * *

Our report has been reviewed by your staff and their comments have been included in Appendix 1 of this report. Should you or your staff have any questions, you may contact me at (202) 927-5430 or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits, at (202) 927-5789. We appreciate the cooperation and the courtesies extended to our staff.

William H. Pugh
Deputy Assistant Inspector General for Financial Management and
Information Technology Audits
January 28, 2002



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

FEB - 7 2002

MEMORANDUM FOR WILLIAM H. PUGH

**DEPUTY ASSISTANT INSPECTOR GENERAL FOR FINANCIAL
MANAGEMENT AND INFORMATION TECHNOLOGY AUDITS**

FROM:

Anna F. Dixon 
Director, Office of Finance and Administration
(Enforcement)

SUBJECT:

Review of Assertions Included in the Interagency Crime and Drug
Enforcement's Fiscal Year 2001 Annual report of Drug Control Funds

Thank you for providing me a draft of the subject report for my review and comment. I note that the report addresses the IRS' inability to document the allocation of funds for Criminal Investigation's (CI) resources between Goal 2 (Increase the Safety of America's Citizens by Substantially Reducing Drug-related Crime and Violence) and Goal 5 (Break Foreign and Domestic Drug Resources Supplies). It is my view that this section of the report should be eliminated based on the following:

1. The allocation of CI's time between Goals 2 and 5 was based on a study conducted by management in 1998. That study determined that approximately 60 percent of resources were devoted to Goal 2 while 40 percent went to Goal 5. Subsequent to the preparation of the final study report, the agent who conducted the study was transferred. Now, almost four years later, the original working papers detailing the formula cannot be located. The only evidence available is an e-mail dated May 15, 1998, in which the agent who conducted the study gives a summarization of the study results and the percentage allocations arrived at for Goals 2 and 5.
2. The breakdown between Goals 2 and 5 are immaterial. This point of view is also shared by ONDCP, which plans on eliminating the allocation of resources between goals for all future reports.
3. Whatever formula or percentage allocation used between Goals 2 and 5, the most important fact is that all ICDE funds (\$63,146,000) payable to CI were obligated and spent during FY 2001 for ICDE specific purposes.

Again, I thank you for the opportunity to review your draft report.

Financial Audits Division

Michael Fitzgerald, Director
Kimberly Fleming, Audit Manager
Ken Harness, Auditor

The Department of the Treasury

Deputy Chief Financial Officer
Office of Undersecretary for Enforcement
Office of Financial Management
Office of Accounting and Internal Control

Office of Management and Budget

OIG Budget Examiner

**INTERAGENCY CRIME DRUG ENFORCEMENT
ANNUAL ACCOUNTING OF DRUG CONTROL FUNDS
FY 2001**

DETAILED ACCOUNTING SUBMISSION

**a. Table of FY 2001 Drug Control Obligations
(\$000)**

	DO	ATF	IRS-CI	USCS	Total
Drug Resources By Goal					
Goal 2	\$ 366	\$ 10,667	\$ 37,888	\$ 29,063	\$ 77,984
Goal 5			\$ 25,258		\$ 25,258
Total	<u>\$ 366</u>	<u>\$ 10,667</u>	<u>\$ 63,146</u>	<u>\$ 29,063</u>	<u>\$ 103,242</u>
Drug Resources by Function					
Investigations	\$ 366	\$ 10,667	\$ 63,146	\$ 29,063	\$ 103,242
Intelligence					\$ -
International					\$ -
Total	<u>\$ 366</u>	<u>\$ 10,667</u>	<u>\$ 63,146</u>	<u>\$ 29,063</u>	<u>\$ 103,242</u>
Drug Resources by Decision Unit					
Reduce Violent Crime		\$ 10,667			\$ 10,667
Protect the Public				\$ 29,063	\$ 29,063
Narcotics Crimes	\$ 366		\$ 63,146		\$ 63,512
Totals	<u><u>\$ 366</u></u>	<u><u>\$ 10,667</u></u>	<u><u>\$ 63,146</u></u>	<u><u>\$ 29,063</u></u>	<u><u>\$ 103,242</u></u>

(1.) Drug Methodology

Management of Interagency Crime and Drug Enforcement (ICDE) obligates drug control resources through reimbursable agreements ICED has entered into with ATF, Customs, and IRS-CI. ICDE's drug control obligations also include obligations related to salaries and expenses of two Organized Crime Drug Enforcement Task Force positions within the Departmental Offices. The methodologies the bureaus use to request reimbursements are described below.

DO

In 1998, fiscal responsibility for the Interagency Crime Drug Enforcement Program (ICDE) was divided between the Department of Treasury and the Department of Justice, giving the Treasury bureaus a degree of autonomy in the program. Since receiving independence for the ICDE program, the Department of Treasury has recognized that the future success of the program is directly related to its ability to service the needs of the Treasury enforcement bureaus. To this end, the Department of the Treasury, Office of Enforcement created two Organized Crime Drug Enforcement Task Force (OCDETF) Advisor positions. Special agents from the Treasury enforcement bureaus subsequently filled the two positions.

The OCDETF Advisors are responsible for budget formulation, budget execution and policy issues affecting the Department of the Treasury's involvement in the ICDE program. The OCDETF Advisors coordinate the ICDE budget formulation process with the Treasury enforcement bureaus. Based on information received from the Treasury bureaus a consolidated ICDE budget is prepared and forwarded through channels. The advisors follow the budget through the approval process and are responsible for coordinating responses from the Treasury enforcement bureaus during this process. With respect to budget execution, the advisors prepare various year-end reports. In addition, during a data call, information obtained from the bureaus, is consolidated into one report and forwarded to the requesting agency.

The OCDETF Advisors are also involved in the review and evaluation of the OCDETF program and coordinate with the Office of National Drug Control Policy (ONDCP) regarding the High Intensity Drug Trafficking Program (HIDTA). The Advisors participate in the Black Market Pesos Working Group, Money Laundering Strategy and attend bureau case briefings. The primary purpose for their participation in these areas is to identify issues having a direct impact on the OCDETF Program.

The drug control obligations incurred for DO relate to salaries, travel and other miscellaneous expenses, incurred in the assignment of the two full-time OCDETF employees to the ICDE program.

ATF

These are reimbursable funds received from the Department of the Treasury. The Bureau of Alcohol, Tobacco and Firearm's (ATF) estimate of drug-related obligations (for ICDE only) is developed based on data from the Bureau's Financial Resources Desktop (FreD) utilizing elements such as gross obligations and project codes. All funding spent using the unique project code for ICDE has a drug nexus. 100% of the resources identified in a query of FreD under this project code are reflected in this report.

IRS-CI

The Internal Revenue Service, Criminal Investigation (IRS-CI) Drug Control Budget contains two components: the Criminal Investigation (CI) Narcotics Related Financial Crime Program and Currency Reporting Forms Processing.

During FY 2001, information obtained from the Case Management Information System (CIMIS) disclosed that IRS-CI dedicated 18.8 percent of its Direct Investigative Time (DIT) to the investigation and prosecution of narcotics organizations and narcotics money laundering. Approximately 81% of total DIT (15.3%) were spent on ICDE investigations. The IRS-CI narcotics program supports Goals 2 (60%) and 5 (40%) of the National Drug Control Strategy. The goal split is based on a resource allocation estimate conducted by IRS-CI. During FY 2001, IRS-CI expended more Direct Investigative Time on ICDE investigations, than actual reimbursement (\$63,146) received.

Currency Reporting Forms Processing: IRS resources are expended to process Currency Reporting Forms required by the Bank Secrecy Act (Title 31), namely, Currency Transaction Reports (CTR's) and Casino Currency Transaction Reports (C-CTR's), Suspicious Activity Reports (SAR's), and Foreign Bank Account Reports (FBAR's) as well as Form 8300, Cash Payments in Excess of \$10,000 Received in a Trade or Business, required by the Internal Revenue Code (Title 26). The forms are processed for reporting banks, financial institutions, and money services businesses as well as retail businesses. This

program activity is reported in a separate account in the IRS's budget activities and is scored as 100 percent drug related, supporting Goals 2 and 5 of the National Drug Control Strategy.

USCS

The USCS captures its ICDE investigative hours through the Case Management module within the Treasury Enforcement Communications System (TECS). The investigative hours captured in TECS are subsequently translated into expenses and submitted to the Department of the Treasury for reimbursement through the Online Payment and Collection System (OPAC).

(2.) Methodology Modifications (DO – ATF – IRS – USCS)

None

(3.) Material Weaknesses or Other Findings (DO – ATF – IRS – USCS)

None

(4.) Reprogramming or Transfers (DO – ATF – IRS – USCS)

ICDE made two reprogramming/transfers during FY 2001. Modification were made to the original agreements and are summarized as follows:

	<u>DO</u>	<u>ATF</u>	<u>IRS-CI</u>	<u>USCS</u>
Original Agreement	\$ 651,000	\$ 10,623,000	\$ 63,218,000	\$28,984,000
Modification #1 Recission	\$ (1,432)	\$ (23,371)	\$ (139,079)	\$ (63,765)
Modification #2	\$ (201,000)	\$ 67,000	\$ 67,000	\$ 67,000
Modification #3	<u>\$ (76,000)</u>	<u> </u>	<u> </u>	<u>\$ 76,000</u>
Total	<u>\$ 372,568</u>	<u>\$ 10,666,629</u>	<u>\$ 63,145,921</u>	<u>\$29,063,235</u>

(5.) Other Disclosures (DO – ATF – IRS – USCS)

None

b. Assertions

(1) Drug Methodology

The drug methodology used to calculate obligations of FY 2001 ICDE budgetary resources in the Table is reasonable and accurate.

The management of ICDE relies on the law enforcement bureaus within the Department of the Treasury to provide the methodology they used to derive the drug-related obligations from the funds reimbursed by the ICDE during the fiscal year. Based upon the submissions we received from these Treasury law enforcement bureaus for FY 2001, we assert that the drug methodology used to calculate the obligations presented in the above Table of Drug Control Obligations is reasonable and accurate.

(2) Application of Methodology

The management of ICDE asserts that the methodology disclosed in section a (1) above was the actual methodology that was used to generate the Table of FY 2001 Drug Control Obligations above.

(3) Financial Plan

ICDE asserts that the data presented is associated with obligations against its financial plan for FY 2001.